

FDIC State Profile

Summer 2005

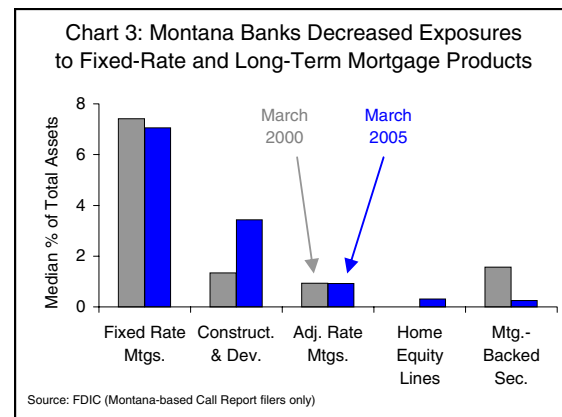
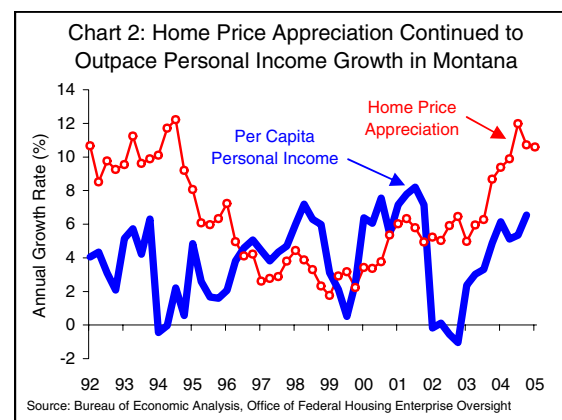
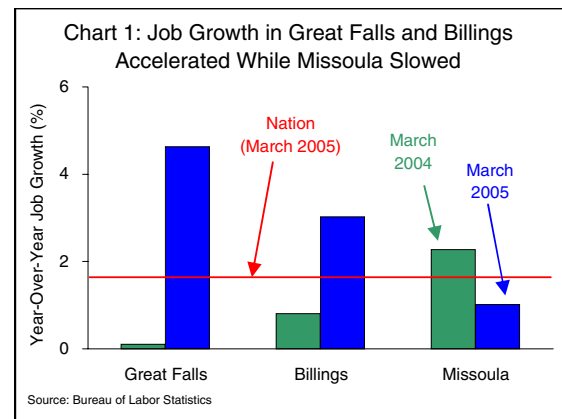
Montana

Montana reported a solid start to 2005 with 2.5 percent job growth, ranking tenth nationwide.

- Most major sectors in Montana reported year-over-year job gains in first quarter 2005. The leisure and construction sectors reported the strongest growth and together accounted for more than half of all new jobs.
- However, Montana job growth is expected to moderate by year-end.¹ Construction sector job growth could weaken in response to a slowdown in residential housing permit activity. In addition, higher gas prices could hurt visitor volumes at key attractions such as Yellowstone National Park.
- Year-over-year job gains in **Great Falls** and **Billings** accelerated in first quarter 2005, but moderated in **Missoula**, largely because of slowing in the area's services sectors (See Chart 1).
- The Department of Defense's Base Realignment and Closure recommendations included slightly more than 100 job losses at two of the state's military facilities. However, reductions were not recommended for Malmstrom Air Force Base, the state's largest employer.

Montana home price growth moderated, and usage of adjustable-rate financing increased.

- Annual home price appreciation in Montana continued to moderate in first quarter 2005, but still outpaced personal income gains (See Chart 2).
- Similar to national trends, rising home prices may have prompted purchasers to use greater numbers of adjustable-rate mortgages (ARMs), which initially carry lower monthly payments compared to fixed-rate mortgages. The Federal Housing Finance Board estimates that ARMs financed 32 percent of Montana home purchases during 2004, up from 14 percent in 2003.
- During the past several years, Montana-based institutions have shifted residential investments away from



¹Forecast source is Economy.com.

mortgage-backed securities and fixed-rate mortgages towards construction loans (See Chart 3).²

- Delinquencies in the 1-4 family mortgage portfolio increased slightly, most noticeably among institutions based in West Montana (See Chart 4).³ Worsening residential loan performance in West Montana-based institutions is significant because they tend to report higher 1-4 family loan exposures than institutions headquartered in Southeast or North-Central Montana.

Agriculture conditions improved, but risks remain.

- Although March 2005 winter wheat prices remained down 8 percent from one year ago, the Montana Agricultural Statistics Service expects the 2005 winter wheat harvest to increase 26 percent above 2004 levels because more acres were planted. Additionally, 65 percent of the winter wheat crop was rated good or excellent, compared with only 24 percent in 2004.
- Pasture and range feed conditions also improved and cattle prices remain near record highs, but the market still faces uncertainty regarding the Canadian beef ban.
- The 36 Montana-based banks holding agricultural loans in excess of 100 percent of Tier 1 capital reported high, albeit improving, median-past due loan ratios (See Chart 5). Most of these institutions are based in the North-Central and Southeast portions of the state.

Strong insured institution earnings improved even further.

- Montana-based insured institutions reported the fourth highest year-to-date pre-tax return on assets (ROA) in the nation during first quarter 2005, 1.84 percent, up from 1.63 percent one-year earlier.⁴
- Earnings improvements reflect widening net interest margins, driven in part by rising loan-to-asset ratios.
- Securities gains figured less prominently in 2005 results because of rising interest rates. Less than 12 percent of Montana-based commercial banks recognized securities gains during the first quarter, compared with nearly 30 percent in early 2004.

²Because of data limitations, it is unknown what proportion of construction and development mortgages relate to single-family building.

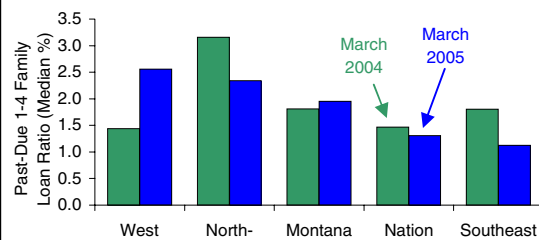
³For purposes of this report, Southeast Montana consists of 28 counties, including the Billings metropolitan area; North-Central Montana consists of 14 counties, including the Great Falls metropolitan area; and, West Montana consists of 15 counties, including the Missoula metropolitan area.

⁴Pre-tax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S Corporation status, which do not pay income tax at the bank level. As of March 31, 2005, 24 of Montana's 80 insured institutions had elected Subchapter S status.

Credit quality improved, but delinquencies remain high.

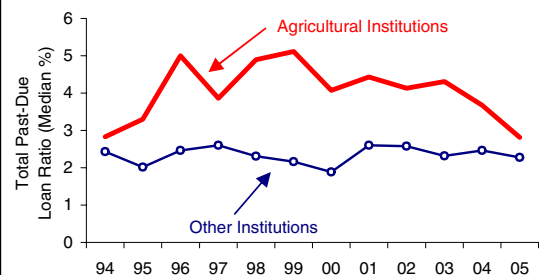
- Past-dues declined to 2.53 percent of loans among the state's insured institutions, but still ranked worst in the nation. Delinquencies were generally elevated across the state, although past-due loan ratios have improved significantly in the North-Central and Southeast sections of Montana during the past several years (See Chart 6).
- Delinquencies declined among commercial and industrial borrowers, the largest segment of Montana loan portfolios, benefiting overall past-due loan levels.

Chart 4: Rising Mortgage Delinquencies in West Montana Influenced the Statewide Trend



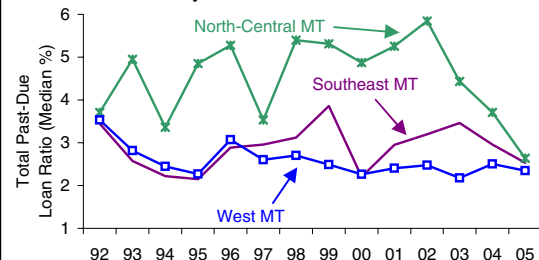
Note: Southeast MT includes 26 counties and the Billings metropolitan area; North-Central MT includes 13 counties and the Great Falls metropolitan area; and, West MT includes 14 counties and the Missoula metropolitan area.
Source: FDIC

Chart 5: Delinquencies Improved But Remain High Among Montana-Based Agricultural Banks



Note: Agricultural institutions hold agricultural lines and farm real estate loans in excess of Tier 1 Capital. Includes Montana-based institutions only.
Source: FDIC (March of each year)

Chart 6: Asset Quality Continued to Improve Particularly in North-Central Montana



Note: Southeast MT includes 26 counties and the Billings metropolitan area; North-Central MT includes 13 counties and the Great Falls metropolitan area; and, West MT includes 14 counties and the Missoula metropolitan area.
Source: FDIC (March of each year)

Montana at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.5%	1.6%	1.3%	0.4%	1.4%
Manufacturing (5%)	1.1%	-1.4%	-3.9%	-8.7%	-3.1%
Other (non-manufacturing) Goods-Producing (8%)	11.7%	7.0%	4.6%	0.8%	2.7%
Private Service-Producing (66%)	2.3%	1.3%	1.8%	1.4%	0.5%
Government (21%)	0.3%	1.5%	0.2%	-0.4%	5.3%
Unemployment Rate (% of labor force)	4.5	4.4	4.4	4.4	4.5
Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	7.1%	3.1%	0.2%	7.6%
Single-Family Home Permits	85.0%	-6.4%	11.8%	18.2%	0.3%
Multifamily Building Permits	47.0%	-54.7%	45.6%	95.1%	-16.1%
Existing Home Sales	-8.9%	2.5%	12.1%	18.9%	10.4%
Home Price Index	10.6%	9.4%	5.0%	5.2%	6.0%
Bankruptcy Filings per 1000 people (quarterly level)	1.18	1.18	1.17	1.05	1.10

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	80	80	81	84	89
Total Assets (in millions)	14,679	13,620	14,144	13,194	12,319
New Institutions (# < 3 years)	2	3	3	2	2
Subchapter S Institutions	24	24	22	17	18
Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.53	2.87	3.35	3.27	3.02
ALLL/Total Loans (median %)	1.39	1.51	1.48	1.48	1.34
ALLL/Noncurrent Loans (median multiple)	1.45	1.05	1.21	1.12	1.07
Net Loan Losses / Total Loans (median %)	0.08	0.09	0.10	0.10	0.09
Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.42	9.17	9.25	9.35	9.66
Return on Assets (median %)	1.33	1.31	1.29	1.29	1.32
Pretax Return on Assets (median %)	1.99	1.99	1.94	1.86	1.94
Net Interest Margin (median %)	5.07	5.04	5.02	5.07	5.10
Yield on Earning Assets (median %)	7.45	7.46	7.64	7.87	8.25
Cost of Funding Earning Assets (median %)	2.45	2.45	2.59	2.81	3.17
Provisions to Avg. Assets (median %)	0.15	0.14	0.14	0.14	0.12
Noninterest Income to Avg. Assets (median %)	0.70	0.72	0.75	0.74	0.75
Overhead to Avg. Assets (median %)	3.13	3.11	3.22	3.17	3.16
Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	67.3	64.4	61.9	62.8	65.9
Noncore Funding to Assets (median %)	15.1	14.8	14.2	14.2	14.8
Long-term Assets to Assets (median %, call filers)	14.5	17.1	16.9	16.4	14.8
Brokered Deposits (number of institutions)	17	10	8	8	11
Brokered Deposits to Assets (median % for those above)	3.9	6.2	3.8	2.2	1.0
Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	116.2	116.9	120.3	119.3	122.2
Commercial Real Estate	169.3	156.2	117.7	116.9	115.3
Construction & Development	35.6	21.2	15.7	19.7	13.7
Multifamily Residential Real Estate	2.0	1.1	0.9	0.8	1.0
Nonresidential Real Estate	116.2	125.0	93.7	91.3	91.8
Residential Real Estate	113.4	95.7	96.6	107.4	112.4
Consumer	50.3	56.1	63.5	72.6	74.5
Agriculture	88.4	95.0	98.3	97.7	109.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Billings, MT	12	1,919	< \$250 million	67 (83.8%)
Missoula, MT	12	1,242	\$250 million to \$1 billion	12 (15%)
Great Falls, MT	10	885	\$1 billion to \$10 billion	1 (1.3%)
			> \$10 billion	0 (0%)